

WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP 4.30.2010

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Financial Regulatory Reform Must End The Bailouts; The Democrats' Proposals Ensure Permanent Bailouts For Their Wall Street Allies.

- Democrats continue to rely on empty rhetoric to obscure the facts regarding their financial reform proposals. The fact is that the Democrats' proposals fail to bring an end to the Wall Street bailouts or "too big to fail";

- The Democrats' so-called "reform" proposals make "too big to fail" financial firms permanent fixtures in our economy. The designation of "too big to fail" carries tremendous benefits including cheaper capital and other competitive advantages. Telling the world which firms the government will bailout when they get into trouble creates new Fannie's and Freddie's. We know how that story ends.

- Under the Democrats' proposal, companies that do business with financial institutions that are designated as "too big to fail" will benefit from a bailout fund, with the government having the authority to make loans to the failed company, purchase its assets, and guarantee its debt. In other words, AIG-style bailouts will continue.

- The House Democrat legislation gives the FDIC authority to provide up to \$1 trillion in guarantees to "avoid or

mitigate adverse effects on systemic economic conditions or financial stability.” This proves yet again that the Democrats’ proposal protects Wall Street over Main Street.

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The Modernized Financial Regulatory System Ought To Protect Taxpayers, Create Jobs.

- The Democrats’ plan is a massive regulatory overreach that will drive American jobs overseas and hand government bureaucrats unlimited power, even over our small Main Street businesses that did nothing to cause the financial crisis.

- A functioning derivatives market is essential to the economy because derivatives are a necessary tool for companies to manage interest rate, exchange rate, commodity, credit default, and other risks. Yet, the Democrats’ derivatives proposal will cut off an essential tool that Main Street businesses use to manage risk. One study by JP Morgan estimates that the Senate Democrats’ derivatives proposal will result in a \$85 billion capital deficit at US banks, while another study estimates that requiring banks to “spin off” their swaps desks could cost those firms more than \$200 billion.

- The Democrats’ plan will reduce the availability of loans and credit, force more small businesses to close, cripple new startups at a time when our economy is struggling, and provide a huge competitive windfall to foreign firms.

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Regulators That Failed To Police The Markets Should Not Be Rewarded With Expanded Mission or New Powers.

- The Democrats reward the financial regulators that failed to police the markets leading up to the financial crisis instead of holding them accountable.

- The Securities and Exchange Commission (SEC) failed to use the tools at its disposal to detect fraud and protect investors. It failed to catch the Madoff and Stanford Ponzi schemes. The SEC also ran a failed investment bank supervisory program. The Agency's Inspector General has just released a devastating report finding that some SEC employees have been surfing the Internet for porn rather than policing the market for fraud. Instead of reforming the SEC, the Democrats want to reward it with vast new regulatory authorities and responsibilities, including regulating the derivatives market, the asset-backed securities market and private pools of capital.

- The Federal Reserve failed to identify and address systemic risk before the crisis. In spite of this inability, the Democrats would expand the role of the Fed, rewarding its bad decisions with increased power to pursue its "too big to fail" policies at taxpayer expense.

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Thursday, May 6: The Oversight Subcommittee will convene for a hearing entitled "The End of Excess (Part One): Reversing Our Addiction to Debt and Leverage" at 10 am in room 2128 Rayburn.

WEEKEND MUST-READS

Wall Street Journal: "Criminal Probe Looks Into Goldman Trading … Federal prosecutors are conducting a criminal investigation into whether Goldman Sachs Group Inc. or its employees committed securities fraud in connection with its mortgage trading, people familiar with the probe say." Wall Street Journal: "Banks' Capital Bill Under Overhaul Package: \$85 Billion … Large banks could face an \$85 billion capital deficit if certain elements of the federal government's financial-overhaul package are passed, according to one of the first reports from Wall Street analysts on the impact of the bill." Wall Street Journal: "Life After Bankruptcy … Remember CIT Group, the financial services company that the Treasury Department thought was too big to fail last year? Turns out there was no need for a "resolution process" in this case. The company's recent revival should persuade Senate Democrats that they really don't need to save big banks and their creditors from the Constitutional process of bankruptcy."

Fortune: "The race to kill the ratings agencies … The legal noose is tightening around credit ratings"

agencies, for practices past and future.” Investor’s Business Daily: “'Super-TARP' … Overhaul: As Democrats batter GOP holdouts on financial changes, it's becoming clear they have every intention of extending government's hand into our financial markets to an unprecedented level.” Newsweek: “Legislating a Conscience on Wall Street … Lloyd Blankfein doesn't seem to feel responsible for anything beyond Goldman Sachs’s bottom line. Nor should he, according to the meager mores of Wall Street.”

USA Today: “EDITORIAL: Obama's regulatory disaster … President Obama rails against Wall Street to score populist political points. But when the smoke clears from all the demagoguery, the financial regulations he is pushing will result in fewer loans, more costly credit and individuals facing more risk.”

REPUBLICANS IN THE NEWS

Rep. Ed Royce issued this press release: Royce to Frank: The first step to recovery is admitting you have a problem and penned this op-ed: "Too-Big-To-Fail Fannie And Freddie Are Dodd-Frank Model For Reform" Rep. Shelley Moore Capito issued these press releases: Capito Applauds Committee Passage of FHA Reform; Capito Applauds House Passage of Rural Home Loan Bill Rep. Jeb Hensarling issued this press release: Hensarling Statement On Greek Debt Crisis

Rep. Scott Garrett penned this op-ed: Reform Should Not Be Rushed

Rep. Tom Price issued these press releases: Democrats Vote for Bailouts Twice in 24 Hours; Stunning Level of Hypocrisy in Campaign Finance Bill

Rep. Michele Bachmann issued this press release: Bachmann Amendment Safeguards Taxpayer Dollars from Political Corruption

Rep. Spencer Bachus issued these press releases: Bachus: We Can No Longer Hide The GSEs’ Debts In The Shadows; On The Ropes: Committee Democrats Forced to Respond to Bachus Op-Ed in Politico…; Bachus: Senate Republicans Take a Stand for Real Reform; Bachus: Democrats Aim to Stifle Critics with DISCLOSE Act

CARTOON OF THE WEEK

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}(Washington Post)